

# IAASB CAG REFERENCE PAPER

IAASB CAG Agenda (September 2007)

Agenda Item D.2

Written Representations – Proposed Conforming Amendments to Proposed ISA 200 (Revised and Redrafted) – September 2007 IAASB Agenda Item 2-B

## Proposed Conforming Amendments to Proposed ISA 200 (Revised and Redrafted), “Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing”

### Preparation of the Financial Statements

7. An audit by an independent auditor is premised on the fact that the financial statements subject to audit are those of the entity, prepared and presented by management of the entity with oversight from those charged with governance,<sup>1</sup> with the auditor engaged for purposes of forming and expressing an opinion on them. The audit of the financial statements does not relieve management and those charged with governance of their responsibilities. The auditor is also entitled to expect that management ~~and those charged with governance~~ will ~~make available to provide~~ the auditor with all the information the auditor requires ~~for the purposes of in connection with~~ the audit of the entity.
8. Accordingly, although ISAs do not impose responsibilities on management ~~and those charged with governance~~, and do not override laws and regulations that govern their responsibilities, ISAs are written, and audits are conducted, on the premises that management ~~and, where appropriate, those charged with governance~~ acknowledge and understand their responsibility: (Ref: Para. A8b)
  - (a) ~~Acknowledge and understand their responsibility for preparing and presenting~~ For the preparation and presentation<sup>2</sup> of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation<sup>3</sup> of financial statements that are free from material misstatement, whether due to fraud or error; and (Ref: Para. A2-A8);
  - (b) ~~Acknowledge and understand their responsibility for designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and~~
  - (c) ~~Will To provide complete the auditor with all the~~ information ~~to the auditor requires in connection with the audit of the entity.~~ (Ref: Para. A8a)

<sup>1</sup> The terms “management” and “those charged with governance” are ~~described~~ defined in [proposed] ISA 260 (Revised and Redrafted), “Communication with Those Charged with Governance.”

<sup>2</sup> In the case of a fair presentation framework, management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting framework; or the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework.

<sup>3</sup> See footnote 2.

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### Definitions

16. For purposes of the ISAs, the following terms have the meanings attributed below ...

(g1) Premise, relating to management's responsibilities, on which an audit is (has been) conducted – Management acknowledge and understand their responsibilities that are fundamental to the conduct of an audit in accordance with the ISAs. That is, their responsibility:

(i) For the preparation and presentation<sup>4</sup> of the financial statements in accordance with the applicable financial reporting framework and that this responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation<sup>5</sup> of financial statements that are free from material misstatement, whether due to fraud or error; and

(ii) To provide the auditor with all the information the auditor requires in connection with the audit of the entity.

### Preparation of the Financial Statements (Ref: Para. 8(a))

- A2. As part of ~~its~~ their responsibility for ~~preparing and presenting the preparation and presentation of~~ the financial statements, management<sup>6</sup> ~~is~~ are responsible for ~~identifying the identification of~~ the applicable financial reporting framework, in the context of any relevant law or regulation. Management ~~is~~ are also responsible for ~~preparing and presenting the preparation and presentation of~~ the financial statements in accordance with that framework, and ~~adequately describing for an adequate description of~~ that framework in the financial statements. ~~Management's responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework includes:~~

- ~~Designing, implementing and maintaining internal control relevant to preparing and presenting financial statements that are free from material misstatement, whether due to fraud or error;~~
- ~~Selecting and applying appropriate accounting policies; and~~
- ~~Making accounting estimates that are reasonable in the circumstances.~~

<sup>4</sup> In the case of a fair presentation framework, management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting framework; or the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework.

<sup>5</sup> See footnote 2.

<sup>6</sup> With oversight from those charged with governance.

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A8. [\[Proposed\] ISA 210 \(Redrafted\)](#), “[Agreeing the Terms of Audit Engagements](#)” establishes requirements and provides guidance on determining the acceptability of the applicable financial reporting framework. [\[Proposed\] ISA 800 \(Revised and Redrafted\)](#), “[Special Considerations—Audits of Special Purpose Financial Statements and Specific Elements, Accounts or Items of a Financial Statement](#)” contains additional considerations for special purpose frameworks.

[A8a. Information the auditor requires in connection with the audit of the entity includes:](#)

- [Information relevant to the preparation and presentation of the financial statements, such as all records, documentation, and other matters of which management is aware and that may affect the financial statements;](#)
- [Any additional information that management is required by law or regulation to provide to the auditor; and](#)
- [Any information that the auditor may request from management, such as written representations.](#)

[A8b. \[Proposed\] ISA 210 \(Redrafted\) requires the auditor to obtain management’s agreement about their responsibilities set out in paragraph 8 as a precondition for accepting the audit engagement. It also deals with circumstances where management’s responsibilities are prescribed in law or regulation. \[Proposed\] ISA 580 \(Revised and Redrafted\), “Written Representations” requires the auditor to obtain written representations about the premise, relating to management’s responsibilities, on which the audit has been conducted. \[Proposed\] ISA 700 \(Redrafted\), “The Independent Auditor’s Report on General Purpose Financial Statements” requires a description of management’s responsibilities in the auditor’s report.](#)